

# **Overview of Governor Locke's 2003-05 Biennial Operating and Capital Budget Proposals**

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**December 20, 2002**

# Major Features of Governor Locke's Proposed 2003-05 Biennial Operating Budget

## **2003-05 Budget Deficit**

The 2003-05 biennial general fund operating budget is estimated to have a deficit of approximately \$1.8 billion. This amount is based upon projected spending needs of \$24.5 billion, which is equivalent to the cost of maintaining current programs and services and as well as providing cost of living adjustments (COLA's) and health benefit cost increases for all public employees, compared with general fund revenues which are forecast to be only \$22.7 billion during the 2003-05 biennium. While COLA's for state employees and health benefit cost increases are not "mandatory" expenditures, they have typically been included in budgets passed by the legislature. The difference, then, between projected current services expenditures (plus COLA's and health care benefits) and forecasted revenues produces the \$1.8 billion general fund deficit.

In addition, the state's health services account (which supports the Basic Health Plan and Medicaid coverage for low income children), has a projected 2003-05 budget deficit of approximately \$550 million. When combined, the total 2003-05 biennial state operating budget deficit is about \$2.4 billion.

***IMPORTANT NOTE: The Governor's Budget does not reflect the cost of two significant items that could increase the overall size of the general fund budget deficit by an additional \$457 million.***

### **Increased Cost of Initiative 732 COLA -- \$359 Million**

On December 19, 2002, the Washington State Supreme Court issued its ruling the case of *McGowan vs. State* (case no. 71947-1) which was brought by school districts and school employees to compel the state to fund the Initiative 732 COLA for school employees who are not paid from state dollars. Specifically, the court ruled that (1) all K-12 employees are entitled to receive the COLA and the state is required to provide state dollars to fund it; (2) the COLA's are not protected by the state Constitution and are not part of basic education; and (3) the state is not ordered to appropriate money for the COLA's which could leave school districts without a remedy.

Although the Governor has proposed amending Initiative 732 to not provide funding for teacher COLA's during the 2003-05 biennium, should the Legislature instead choose to fund the full COLA, the estimated cost in state funds could increase by as much as \$359 million because of the court's decision. This amount is based on both retroactive payments for the 2001-03 biennium (\$113 million), as well as an additional \$246 million for the continuing costs of the prior biennium COLA and the projected 2003-05 COLA applied to all district personnel.

### **Homecare Worker Collective Bargaining Agreement -- \$98 Million**

Under the provisions of Initiative 775, which was enacted by the voters in November 2001, a Home Care Quality Authority was established to collectively bargain with homecare workers (individuals who contract with the state to provide in-home services for persons with disabilities). The Authority recently reached an agreement with the Service Employees International Union (SEIU) to increase wages and benefits for homecare workers during the 2003-05 biennium. The total cost of the agreement is estimated to be approximately \$193 million of which \$98 million would be from the state general fund and the health services account. The Governor's budget does not include funding for the proposal.

### **General Fund Budget Deficit**

The Governor's 2003-05 general fund operating budget also includes \$192 million in new spending, which increases the size of the deficit he needs to close to about \$2.0 billion. This is accomplished in his budget through \$1.7 billion in spending reductions and approximately \$300 million in revenue changes. In addition, the Governor makes a number of one-time transfers from dedicated fund balances totaling \$94 million, most of which is used to increase the size of the ending fund balance.

### **Expenditure Reductions -- \$1.7 Billion**

- Amending Initiative 732 to eliminate mandatory cost of living adjustments (COLA's) for teachers, and not funding COLA's for state and higher education employees and vendors; shifting additional health insurance costs to state employees and teachers; and changing the state's pension funding methodology -- **\$774 Million Savings.**

- Making a variety of reductions and program changes in the Department of Social and Health Services such as consolidating and reducing numerous children's programs; reducing nursing home reimbursements; eliminating the Medically Indigent program and some optional Medicaid services; and eliminating the state's General Assistance-Unemployable (GA-U) program -- **\$475 Million.**
- Raising higher education tuition by 9% per year and taking a general fund offset in school budgets and cutting the non-instructional base -- **\$179 Million.**
- Elimination or reduction of a variety of non-basic education programs -- **\$112 Million.**
- Reducing the number of low risk offenders in prison and eliminating state supervision of other low risk offenders who have completed prison sentences and other reductions -- **\$111 Million.**
- All other -- **\$60 Million**

### **Revenue Changes -- \$276 Million**

- Proposing to amend Initiative 728 to eliminate a scheduled increase in the diversion of state property tax revenues to local school districts for class size reduction and other improvements -- **\$221 Million.**
- Directing the Department of Revenue to begin collecting the use tax on repair services prescribed in SB 6835 and other changes -- **\$55 Million (net).**

### **Health Services Account Deficit**

The Governor's 2003-05 biennial operating budget addresses the projected \$550 million deficit in the Health Services Account as follows:

#### **Saving \$670 million through the following expenditure reductions and revenue diversions:**

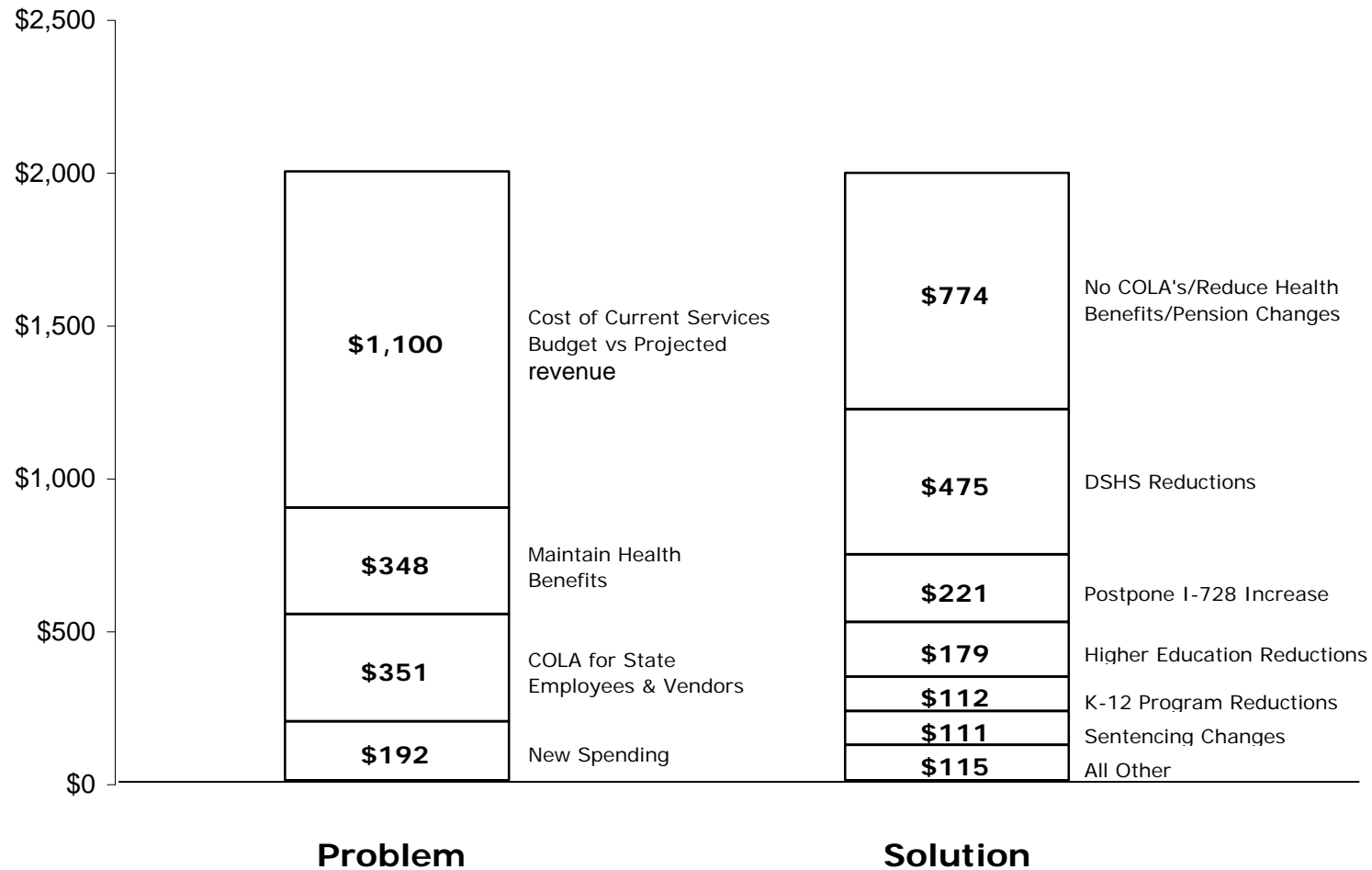
- Eliminating Basic Health Plan (BHP) coverage on July 1, 2003 for about 60,000 enrollees with no children -- **\$293 Million.**

- Amending Initiative 773 (two thirds vote of both houses of the legislature) so that tax revenue dedicated to funding 30,000 new BHP enrollments may instead be used for other programs funded from the Health Services Account -- **\$305 Million**
- Transferring general fund reserves in the 2003 Supplemental Budget -- **\$35 Million**
- Making other reductions and savings assumptions -- **\$37 Million.**

**Spending \$120 million on the following items:**

- Establishing a fund balance -- **\$74 Million.**
- Increasing funding for community clinics -- **\$22 Million.**
- Shifting funding for some general fund programs to the Health Services Account -- **\$23 Million.**

# The Governor's Proposed 2003-05 General Fund Biennial Budget



# Major General Fund Budget Reductions

## **Compensation -- \$774 Million Savings**

- Cost of living adjustments mandated by Initiative 732 would be statutorily eliminated for the 2003-05 biennium. The salary increases would have been 2.1% in 2003-04 and 2.4% in 2004-05 -- \$229 million savings.
- Cost of living adjustments for state and higher education employees and for social service contract providers for each year of the 2003-05 biennium based on the Implicit Price Deflator (2.7% and 2.8%) are not included in the Governor's budget -- \$351 million savings.
- State employees will be required to contribute an average of 20% of their health benefit premium cost (currently 14% on average), and office visit co-pays would increase from \$10 to \$15. State allocations for K-12 health care benefits would also grow less than projected health insurance costs -- \$111 million savings.
- Adoption of a unit credit actuarial funding methodology would reduce the amount of funding the state must provide for pension contributions --- \$83 million savings.

## **Department of Social and Health Services -- \$475 Million Savings**

### **DSHS Medical Assistance**

- The state's Medically Indigent Program, which provides payments to hospitals and physicians to partially cover the cost of uncompensated emergency care treatment is eliminated -- \$81.1 million savings.
- Non-emergent medical services such as dental care, vision and hearing care for low income adults are eliminated -- \$51.6 million savings.
- Anticipating a 2.4% increase rather than an 8.0% increase in Medicaid managed care rates and tightening eligibility procedures -- \$88.2 million savings.
- Preferred drug purchasing efficiencies will be implemented -- \$22.7 million savings.

### DSHS Long Term Care

- Nursing home payment rates are reduced by an average of 6.9% -- \$33.8 million savings

### DSHS Economic Services

- The General Assistance – Unemployable (GA-U) program, which provides public assistance payments for disabled, low-income adults not eligible for federal Supplemental Security Income (SSI) benefits, is eliminated. GA-U medical coverage is maintained -- \$40.3 million savings.

### DSHS Children's Administration

- Funding for Crisis Residential Centers (CRC's) and Secure CRC's is eliminated -- \$16.8 million savings.
- Growth in foster care funding is reduced by 17% -- \$17.8 million savings.
- Growth in adoption support benefits is reduced -- \$12 million savings.
- State funding for various prevention programs (alternative response system, street youth, hope centers, family reconciliation services) is reduced and the Family Policy Council is eliminated -- \$12 million savings.

### DSHS Mental Health

- Community mental health funding is reduced by 5% compared to forecasted levels -- \$20.7 million savings.
- Funding is reduced for the McNeil Island Secure Community Transitional Facility for sexually violent predators by decreasing staffing ratios and eliminating round the clock police coverage - \$2.7 million savings.

### DSHS Juvenile Rehabilitation

- Funding to counties for truancy petitions eliminated -- \$7.1 million savings.



### DSHS Developmental Disabilities

- Employment and day programs are reduced by 12% -- \$9 million savings.
- Funding for the ARC Lawsuit settlement is reduced -- \$3.5 million savings.

### DSHS Alcohol and Substance Abuse

- Eliminate funding for the Treatment Alternatives to Street Crime (TASC) program -- \$6.6 million savings.
- Eliminates funding for gravely disabled clients -- \$2 million savings.

### **Higher Education -- \$179 Million Savings**

- General fund appropriations are reduced for all four-year colleges and universities and the community and technical colleges equal to the amount of new revenue that can be generated from the Governor's proposed 9% per year increase in tuition -- \$138.6 million savings.
- An across-the-board reduction is made to the non-instructional base of all four-year colleges and universities and the community and technical college system -- \$39.8 million savings.
- The Higher Education Coordinating Board's budget is reduced -- \$232,000 savings.

### **K-12 Education -- \$112 Million Savings**

- The State Flexible Education Fund block grant program is eliminated -- \$41.3 million savings.
- Reducing from 12 percent to 10 percent the rate the state would equalize under the levy equalization program, except for districts in the top quartile of rates -- \$33 million savings.
- The following programs are eliminated or reduced: Readiness to Learn; Nursing Corps; Summer Vocational Education; Pacific Science Center; LASER Science Program; Alternative Routes to Certification - \$23.3 million savings.

## **Department of Corrections -- \$111 Million Savings**

- Funding for incarceration is reduced, assuming about 1,200 fewer inmates for the next two fiscal years due to revised drug sentencing and early release of property offenders who are at moderate or low risk to reoffend. -- \$48.4 million savings.
- Community supervision is eliminated for low and moderate risk inmates released from jails and prisons, approximately 25,000 inmates. -- \$47.2 million savings.

## **All Other -- \$60 Million Savings**

- Various agency consolidations and staffing reductions eliminate approximately 1,600 staff positions -- \$42.8 million savings.
- The long-term care ombudsman and the court appointed special advocates/guardian ad litem programs are eliminated -- \$1.6 million savings.
- General fund support for civil indigent legal defense is eliminated -- \$1.7 million savings.
- Funding for the state film office and the retired senior volunteer program is eliminated -- \$1.1 million savings.
- Proposes closure of the Naselle, Coulter Creek and Hurd Creek fish hatcheries -- \$800,000 savings.
- Delays elimination of the water rights changes/transfers backlog by 9 months in the Department of Ecology -- \$2 million savings.
- Closes some state parks to be determined by the State Parks Commission -- \$388,000 savings.
- Reduces Fish and Wildlife Commission administration and maintains some vacancies in the enforcement division -- \$2.3 million savings.

## **New Spending -- \$192 Million**

- \$54 million is provided to implement a portion of the state salary survey by bringing all job classes more than 20% behind their private sector counterparts up to that level.

- \$32 million is provided for additional state need grants due to the Governor's proposed 9% per year tuition increases.
- \$23 million is provided for K-12 Learning Assistance Program (LAP). The LAP formula would be changed to allocate funding based on a school district's percentage of low-income students with additional funding for districts with above average concentrations of poverty.
- \$20 million is provided for 1,500 high demand college enrollments.
- \$15 million is provided for higher education faculty recruitment and retention (\$10 million) and increases in salary funding or part-time community college faculty (\$5 million).
- Estimated federal homeland security grant funding is \$75 million. Of this amount, \$56 million in funding is pass-through to local jurisdictions with no state match; the rest will go to the State Patrol, OFM, and the Military Department with a required 25% state match.

## **Revenue Changes --\$276 Million**

- The Governor proposes to amend Initiative 728 to suspend a scheduled 2004-05 school year increase in the per pupil funding allocation for class size reduction and other educational improvements. Under the initiative, the per pupil amount would have increased from \$220 to \$450. This proposed change increases revenue to the state general fund by \$221 million.
- In the 2002 session, the Legislature enacted Senate Bill 6835, which applied the use tax to promotional materials printed out-of-state, to repair services, and to shipping and other freight charges. The legislation, however, inadvertently applied the use tax to repair services that are exempt from the sales tax, such as the repair of manufacturing machinery and equipment. The Department of Revenue has not been collecting this tax in anticipation of the Legislature correcting the error in the 2003 session. The Governor proposes to direct the Department of Revenue to begin collecting the tax effective July 1, 2003. This action increases general fund revenues by \$60 million.
- The Governor proposes to help local governments finance new infrastructure by permitting them to retain up to \$5 million per year in state taxes generated as a result of local improvements. This results in a \$10 million decrease in state revenues.
- Other minor revenue changes result in a net increase of \$5 million.

## **Reserves**

A number of one-time revenue transfers from various dedicated account fund balances are made totaling \$94.3 million. Some of the largest transfers include \$27.5 million from the Pollution Liability Insurance Program Trust Account; \$19 million from the State Treasurer's Service Account; \$13.8 million from the Site Closure Account; and \$10 million from the State Convention and Trade Center Account.

These transfers partially help solve the budget deficit as well as increase the size of the ending fund balance from \$133 million in the 2001-03 biennium (after the 2003 Supplemental Budget see below), to \$214 million in 2003-05. When combined with the emergency reserve account balance of \$57 million, total reserves are approximately \$271 million. It should also be noted that the Governor's budget repeals the existing requirement that \$35 million per year be transferred from the emergency reserve account to the multi-modal account in the transportation budget.

## **2003 Supplemental Budget**

The 2001-03 general fund biennial budget is currently \$22.450 billion. The Governor proposes 2003 supplemental spending of an additional \$235 million, bringing the total biennial appropriation to \$22.680 billion. The projected ending fund balance would be \$133 million in the general fund and \$55 million in the emergency reserve account.

Major spending requirements in the Governor's proposed 2003 supplemental budget include a net \$124 million for mandatory caseload changes (K-12 education, medical assistance, lower debt service interest costs); \$35 million to partially address the shortfall in the health services account; \$25 million for tort claims; \$24 million related to a federal disallowance in DSHS; \$16 million for forest fires; and \$11 million for other items.

# Summary of Governor Locke's Proposed 2003-05 Biennial Capital Budget

The \$2.4 billion in new appropriations in the Governor's 2003-05 Capital Budget is financed by \$1.3 billion in borrowing plus \$1.1 billion in dedicated cash accounts. The \$2.4 billion total is distributed among functional areas as follows:

- Higher Education -- \$686 million or 29%
- Governmental Operations -- \$447 million or 19%
- Natural Resources -- \$444 million or 19%
- Public Schools-- \$381 million or 16%
- Human Services --\$366 million or 15%
- All Other-- \$ 44 million or 2%

## **\$1.3 Billion of Bonds**

The current statutory 7% debt limit for this biennium would allow a capital budget of between \$900 and \$950 million dollars. The Governor's budget is approximately \$1.3 billion dollars. To accomplish this, the proposal borrows \$926 million within the debt limit, plus an additional \$312 million of debt outside the debt limit (paid from lottery revenues in the education construction account.) The statutory debt limit is explicitly amended to exempt the \$312 million in "lottery bonds." The \$1.3 billion bonds funds are distributed as follows:

- Higher Education -- \$535 million or 43%
- Human Services -- \$298 million or 24%
- Transfer to K-12 Construction -- \$127 million or 10%
- Natural Resources -- \$120 million or 10%
- Government Operations -- \$113 million or 9%
- All Other -- \$44 million or 3%

## **K-12 Construction**

A total of \$379 million is appropriated for K-12 construction assistance grants. This amount includes an additional \$14.5 million for a proposed area cost allowance enhancement to the current matching formula to help offset the difference between actual and state formula construction costs of schools.

To fund this level of spending, the Governor's budget transfers \$127 million of bond funds into the common school construction account to counteract declining resources due to weak timber revenues, reduced transfers from the education savings account and the increased spending pressure attributable to the area cost enhancement.

## **Higher Education**

The Governor proposes \$535.3 million in debt financing. \$296.4 from typical debt limit bonds and \$238.9 from the "lottery bonds" distributed as follows:

- University of Washington - - \$60 million or 11%
- Washington State -- \$55 million or 10%
- Eastern Washington -- \$42 million or 8%
- Central Washington -- \$26 million or 5%
- Evergreen -- \$26 million or 5%
- Western Washington -- \$13 million or 2%
- Community Colleges -- \$312 million or 58%

Major projects include: UW Johnson Hall Renovation, WSU Cleveland Hall and Johnson Hall addition, EWU Cheney Hall and Senior Hall Renovation, CWU/Highline Education center (but provides no funding for the CWU Music Building Phase 2), Evergreen Evans Building, WWU Communications Facility, Pierce College Puyallup

Phase III Expansion, Olympic College Science and Technology Building Replacement, Clark College Clark Center at WSU Vancouver and South Puget Sound Humanities/Gen. Ed Complex.

## **Other Items**

The Governor's proposed capital budget also provides:

- \$210 M for the Department of Corrections; including \$158 M for adding 868 new high-security beds at the Washington State Penitentiary in Walla Walla.
- \$15 M for the Washington State Patrol, including funding for the Seattle Toxicology Lab and construction of the Spokane Crime Lab.
- \$31 M for the Military Department, including construction of a new Spokane Readiness Center.
- \$30 million for the Washington Wildlife and Recreation Program (WWRP).
- No funding for the Trust Land Transfer Program.
- \$11 million water supply facilities related to water and groundwater storage and recovery projects.
- \$20 million to the State School for the Deaf for campus redevelopment.
- No additional funding is included for Highline School District aircraft mitigation.